

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type [] City [] Township [] Village [X] Other		Local Government Name City of Lansing Sewage Disposal System	County Ingham
Audit Date 6/30/05	Opinion Date 11/9/05	Date Accountant Report Submitted to State: 1/24/2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

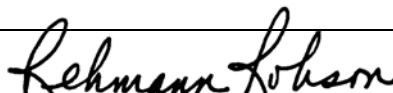
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | | |
|-----|-----|-----|----|----|--|
| [] | Yes | [x] | No | 1. | Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| [] | Yes | [x] | No | 2. | There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| [] | Yes | [x] | No | 3. | There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| [] | Yes | [x] | No | 4. | The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| [] | Yes | [x] | No | 5. | The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| [] | Yes | [x] | No | 6. | The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| [] | Yes | [x] | No | 7. | The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| [] | Yes | [x] | No | 8. | The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| [] | Yes | [x] | No | 9. | The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA				
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI	Zip 48605
Accountant Signature 			Date 1/24/2006	

**CITY OF LANSING
SEWAGE DISPOSAL SYSTEM
(An Enterprise Fund of the
City of Lansing, Michigan)**

Financial Statements

**For The Year Ended
June 30, 2005**



REHMANN ROBSON

Certified Public Accountants

**CITY OF LANSING
SEWAGE DISPOSAL SYSTEM FUND
(An Enterprise Fund of the
City of Lansing, Michigan)**

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REHMANN ROBSON

Certified Public Accountants

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 an independent member of
BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

November 9, 2005

To the City of Lansing Board of Commissioners
Lansing, Michigan

We have audited the accompanying financial statements of the ***City of Lansing Sewage Disposal System, an enterprise fund of the City of Lansing, Michigan***, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City of Lansing Sewage Disposal System's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the ***City of Lansing Sewage Disposal System, an enterprise fund of the City of Lansing Michigan***, and do not purport to, and do not present fairly the financial position of the City of Lansing, Michigan, as of June 30, 2005, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***City of Lansing Sewage Disposal System, an enterprise fund of the City of Lansing, Michigan***, as of June 30, 2005, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The System has not presented Management's Discussion and Analysis (MD&A) as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Basic Financial Statements

City of Lansing
Statement of Net Assets
Sewage Disposal System
June 30, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 15,958,719
Receivables:	
Accounts, net	3,165,142
Accrued interest	40,190
Inventories	256,696
Restricted assets:	
Cash and cash equivalents	40,178,915
Accrued interest receivable	124,226
Total current assets	<u>59,723,888</u>
Noncurrent assets:	
Bond issue costs	532,168
Capital assets, net	<u>274,354,880</u>
Total non-current assets	<u>274,887,048</u>
Total assets	<u>334,610,936</u>

Liabilities

Current liabilities:	
Accounts payable	2,484,196
Accrued interest payable	893,263
Accrued payroll	123,508
Due to other funds	1,178,658
Due to other governments	125,089
Current portion of:	
Long-term debt	8,670,000
Compensated absences	387,614
Total current liabilities	<u>13,862,328</u>
Noncurrent liabilities:	
Long-term debt	130,611,442
Compensated absences	293,570
Total non-current liabilities	<u>130,905,012</u>
Total liabilities	<u>144,767,340</u>

Net assets

Invested in capital assets, net of related debt	135,605,606
Restricted for debt retirement	39,409,878
Unrestricted	<u>14,828,112</u>
Total net assets	<u>\$ 189,843,596</u>

The accompanying notes are an integral part of the financial statements.

City of Lansing
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Sewage Disposal System
For the Year Ended June 30, 2005

Operating revenues	
Charges for services	\$ 26,498,586
Operating expenses	
Personal services	5,906,520
Purchase of goods and services	6,455,591
Depreciation	5,847,548
Total operating expenses	18,209,659
Operating income	8,288,927
Nonoperating revenues (expenses)	
Interest revenue	1,096,658
Gain on sale of capital assets	14,136
Interest expense and fees	(2,382,409)
Amortization of bond issue costs	(39,543)
Other revenue	392,170
Total nonoperating expenses	(918,988)
Income before contributions and transfers	7,369,939
Capital contributions	260,695
Transfers out	(300,000)
Change in net assets	7,330,634
Net assets, beginning of year, as restated	182,512,962
Net assets, end of year	\$ 189,843,596

The accompanying notes are an integral part of the financial statements.

City of Lansing
Statement of Cash Flows
Sewage Disposal System
For the Year Ended June 30, 2005

Cash flows from operating activities	
Cash received from customers	\$ 26,070,866
Cash payments for goods and services	(8,206,082)
Cash payments to employees	<u>(5,909,425)</u>
Net cash provided by operating activities	<u>11,955,359</u>
Cash flows from noncapital financing activities	
Transfers out	<u>(300,000)</u>
Cash flows from capital and related financing activities	
Proceeds from sale of capital assets	14,136
Acquisition and construction of capital assets	(20,814,783)
Capital contributions received	260,695
Principal paid on revenue and general obligation bonds	(8,085,000)
Interest paid on revenue and general obligation bonds	(2,339,845)
Proceeds from issuance of long-term debt	12,079,560
Other receipts and disbursements	<u>392,170</u>
Net cash used for capital and related financing activities	<u>(18,493,067)</u>
Cash flows from investing activities	
Interest and dividends	<u>1,096,658</u>
Net decrease in cash and cash equivalents	(5,741,050)
Cash and cash equivalents, beginning of year	<u>61,878,684</u>
Cash and cash equivalents, end of year	<u><u>\$ 56,137,634</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 8,288,927</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities	
Depreciation expense	5,847,548
Change in:	
Accounts receivable	(271,920)
Accrued interest receivable	(155,800)
Inventory	29,680
Due from other funds	3,793,677
Accounts payable	(531,429)
Accrued interest payable	19,151
Accrued payroll	20,712
Due to other funds	(5,129,654)
Compensated absences	<u>44,467</u>
Total adjustments	<u>3,666,432</u>
Net cash provided by operating activities	<u><u>\$ 11,955,359</u></u>

The accompanying notes are an integral part of the financial statements.

Notes to Basic Financial Statements

CITY OF LANSING SEWAGE DISPOSAL SYSTEM

Notes To Basic Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The Sewage Disposal System (the “System”), an enterprise fund owned and operated by the City of Lansing, was established to account for the provision of sewage disposal services to the residents of the City. The System is included as a proprietary fund type in the City of Lansing’s basic financial statements.

1-B. Basis of Presentation

This annual report consists of financial statements prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis – For State and Local Governments*, as amended.

1-C. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and economic resources measurement focus. The System reports as a business-type activity, as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. In preparing the financial statements, the System has applied all Financial Accounting Standards Board statements and interpretations issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The System has elected not to follow subsequent private sector guidance.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF LANSING SEWAGE DISPOSAL SYSTEM

Notes To Basic Financial Statements

1-D. Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value.

Inventories

All inventories are valued at cost using the first-in/first-out method.

Capital Assets

All land and non-depreciable land improvements are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceed \$5,000. The sewer networks are all capitalized regardless of cost. Buildings are capitalized over \$100,000.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30-50
Improvements	8-50
Equipment	3-15
Sanitary sewers	50

CITY OF LANSING SEWAGE DISPOSAL SYSTEM

Notes To Basic Financial Statements

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and compensatory time benefits, subject to certain limitations. Certain bargaining unit employees are also permitted to accumulate earned but unused sick leave. All vacation and compensatory time pay and 50 percent of sick leave are accrued when incurred.

Long-term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Net Assets

The three net asset categories are as follows:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvements of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

CITY OF LANSING SEWAGE DISPOSAL SYSTEM

Notes To Basic Financial Statements

NOTE 2. DETAILED NOTES ON INDIVIDUAL ACCOUNTS

2-A. Deposits and Investments

The carrying amount of cash and cash equivalents is \$56,137,634 (\$15,958,719 unrestricted and \$40,178,915 restricted) at June 30, 2005. Investment policies and risk categorization for the City's cash and investments are included in the City of Lansing's financial statements.

2-B. Accounts Receivable

Operating revenues for sewer fees and charges are billed to the users through the Board of Water and Light, an affiliated entity. At June 30, 2005, \$3,165,142 was due from the Board for sewer, collected fees, charges, and estimated unbilled sewer charges.

The System does not process interdepartmental billings. All affiliated utilities are billed at regular adopted rates.

2-C. Capital Assets

Capital assets consist of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 202,339	\$ -	\$ -	\$ 202,339
Construction in process	73,917,521	20,533,268	36,794,701	57,656,088
Total capital assets not being depreciated	74,119,860	20,533,268	36,794,701	57,858,427
Capital assets being depreciated:				
Land improvements	13,487,044	1,059,997	-	14,547,041
Equipment and vehicles	1,336,214	42,390	251,657	1,126,947
Buildings	123,787,351	-	-	123,787,351
Infrastructure	129,860,728	35,973,825	-	165,834,553
Total capital assets being depreciated	268,471,337	37,076,212	251,657	305,295,892
Accumulated depreciation:				
Land improvements	4,895,596	275,551	-	5,171,147
Equipment and vehicles	1,226,774	(39,481)	251,657	935,636
Buildings	46,953,673	2,412,211	-	49,365,884
Infrastructure	30,127,506	3,199,266	-	33,326,772
Total accumulated depreciation	83,203,549	5,847,547	251,657	88,799,439
Capital assets being depreciated, net	185,267,788	31,228,665	-	216,496,453
Total capital assets, net	\$ 259,387,648	\$ 51,761,933	\$ 36,794,701	\$ 274,354,880

CITY OF LANSING SEWAGE DISPOSAL SYSTEM

Notes To Basic Financial Statements

2-D. Long-Term Debt

The following is a summary of long-term debt transactions for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
General obligation bonds	\$ 80,010,225	\$ 12,079,560	\$ 4,420,000	\$ 87,669,785	\$ 4,865,000
Revenue bonds	55,375,000	-	3,665,000	51,710,000	3,805,000
Subtotal	135,385,225	12,079,560	8,085,000	139,379,785	8,670,000
Compensated absences	636,717	420,792	376,325	681,184	387,614
Add (deduct) deferred amounts:					
For issuance discounts	(92,085)	-	(16,582)	(75,503)	-
For issuance premiums	1,012,908	-	43,103	969,805	-
On refunding	(1,075,039)	-	(82,394)	(992,645)	-
	<u><u>\$ 135,867,726</u></u>	<u><u>\$ 12,500,352</u></u>	<u><u>\$ 8,405,452</u></u>	<u><u>\$ 139,962,626</u></u>	<u><u>\$ 9,057,614</u></u>

General obligation bonds issued by the City of Lansing that are being serviced - principal and interest - by the Sewage Disposal System Fund are as follows:

	Interest Rate	Original Amount	Amount
Business-type activities			
1992 Limited Tax Sewer Bond - 5005-01	2.50%	\$ 7,128,800	\$ 3,550,000
1993 Limited Tax Sewer Bond - 5005-02	2.50%	8,150,050	4,320,000
1994 Limited Tax Sewer Bond - 5005-03	2.50%	3,234,722	1,860,000
1994 Limited Tax Sewer Bond - 5005-04	2.00%	3,727,138	2,057,138
1994 Limited Tax Sewer Bond - 5005-05	2.25%	515,969	260,000
1994 Limited Tax Sewer Bond - 5005-06	2.25%	7,595,611	4,260,000
1996 Limited Tax Sewer Bond - 5005-07	2.25%	3,365,073	2,170,073
1996 Limited Tax Sewer Bond - 5005-08	2.25%	3,995,000	2,795,000
1997 Limited Tax Sewer Bond - 5005-09	2.25%	4,746,780	3,451,780
1998 Limited Tax Sewer Bond - 5005-10	2.25%	10,539,950	8,184,950
1999 Limited Tax Sewer Bond - 5005-11	2.50%	8,951,225	6,876,225
2000 Limited Tax Sewer Bond - 5005-12	2.50%	8,548,551	6,953,551
2001 Limited Tax Sewer Bond - 5005-13	2.50%	10,521,095	9,216,095
2002 Limited Tax Sewer Bond - 5005-14	2.50%	13,416,816	12,886,816
2003 Limited Tax Sewer Bond - 5005-15	2.50%	10,259,826	10,259,826
2004 Limited Tax Sewer Bond - 5005-16	2.13%	3,070,277	3,070,277
2005 Limited Tax Sewer Bond - 5005-17	2.13%	4,739,023	4,739,023
2005 Limited Tax Sewer Bond - 5005-18	1.63%	759,031	759,031
		<u><u>\$ 113,264,937</u></u>	<u><u>\$ 87,669,785</u></u>

CITY OF LANSING SEWAGE DISPOSAL SYSTEM

Notes To Basic Financial Statements

	Interest Rate	Original Amount	Amount
Revenue bonds			
<i>Business-type activities</i>			
1994 Sewage Disposal System Revenue Bond	5.30%	\$ 3,125,000	\$ 430,000
1998 Sewer Revenue & Refunding Bond	2.50%	26,415,000	12,065,000
2003 Sewer Revenue & Refunding Bond	2.50%	39,880,000	39,215,000
		\$ 69,420,000	\$ 51,710,000

The annual requirements to service all long-term debt of the System outstanding as of June 30, 2005, including interest payments are as follows:

Year Ended June 30	Business-type Activities		
	Principal	Interest	Total
2006	\$ 8,670,000	\$ 4,353,302	\$ 13,023,302
2007	10,130,000	4,056,156	14,186,156
2008	8,664,031	3,754,870	12,418,901
2009	8,640,000	3,520,134	12,160,134
2010	8,790,000	3,289,634	12,079,634
2011-2015	44,380,333	12,194,392	56,574,725
2016-2020	29,817,407	6,334,471	36,151,878
2021-2025	15,338,014	2,653,678	17,991,692
2026-2028	4,950,000	460,350	5,410,350
	\$ 139,379,785	\$ 40,616,989	\$ 179,996,774

CITY OF LANSING SEWAGE DISPOSAL SYSTEM

Notes To Basic Financial Statements

Sewage Disposal System Revenue Bonds

The Sewage Disposal System revenue bonds were issued under the authority of Revenue Bond Ordinance 29A. The ordinance requires monies to be set aside in certain restricted funds as follows:

- **Bond and interest redemption fund** - This fund is restricted to the payment of bond principal and interest. One-sixth of the interest next due is set aside monthly until such amounts equal the next required payment. One-twelfth of the principal payment next due is also set aside monthly. This fund also includes a Bond Reserve Account in which \$5,946,000 is deposited. This amount equals the largest annual debt service payment, based on criteria of a bond reserve test, which can be used to make up any deficiency in the Bond and Interest Redemption Fund. For fiscal year 2005, the amount required to be deposited and/or reserved is \$4,259,577.
- **Bond project fund** - This fund holds the proceeds from the sale of the 1994, 1998 and 2003 Sewage Disposal System Revenue bonds, less the amount deposited in the Bond Reserve Account for the largest annual debt service payment. Funds in the Bond Project Fund are applied solely to payment of costs incurred in the Sewage Disposal Project.

2-E. Interfund Payable and Transfers

At June 30, 2005, the Sewage Disposal System had an interfund payable outstanding to the City General Fund in the amount of \$1,178,658.

For the year ended June 30, 2005, the Sewage Disposal System made an interfund transfer to the General Fund of \$300,000.

CITY OF LANSING SEWAGE DISPOSAL SYSTEM

Notes To Basic Financial Statements

NOTE 3. OTHER INFORMATION

3-A. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

3-B. Defined Benefit Pension Plans and Other Postemployment Benefits

All full-time employees of the System participate in the City of Lansing's Employees' Retirement System or the Employees' Money Purchase Plan. In addition, the City provides postretirement health care benefits in accordance with labor agreements to full-time employees of the City. Disclosures for the retirement plans and other postemployment benefits are included in the City of Lansing's financial statements.

3-C. Restatements

Beginning net assets of the sewage disposal fund were increased by \$1,166,000 to reflect the accrual of unbilled customer receivables at June 30, 2004.

* * * * *